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SUBJECT: SOME RUSSIANS GROW UNEASY AS GOR DOLES OUT RESERVES

REF: MOSCOW 3222

Classified By: Ambassador John Beyrle for reasons 1.4 b, d

Summary

[11](#). (C) Oligarchs, bankers, and industrialists are vying to receive Kremlin handouts, while ordinary Russians appear to be disengaged concerning the fate of Russia's dwindling "rainy day" reserve funds. The GOR has been injecting billions of dollars into the economy to prevent a collapse as it struggles to contain the effects of the global financial crisis. Initial financing went to the banking sector and now the Kremlin has begun to select the companies that are "critical" to Russia's economy. Although funding destinations are predicted to favor Kremlin insiders, initial decisions indicate that the GOR also wants to ensure social and macroeconomic stability in the process. Meanwhile, the GOR continues to wage a propaganda campaign to persuade the country that there is no real crisis - at least not one that will have any effect on the "real" economy. End Summary.

Kremlin Ready To Fund "Critical" Sectors...

[12](#). (U) The GOR has undertaken a range of measures to prevent the global financial crisis from infecting Russia. These have so far included a \$200 billion package using budget funds and reserves to inject liquidity and support the ruble, lowering bank reserve requirements, and adjusting fiscal policy. Now the GOR is gearing up to decide which parts of the economy will be saved. Business interests across the gamut (real estate, oil and gas, electricity) have been lining up to explain why their business is part of the "real" economy and deserving of Kremlin support.

[13](#). (U) The GOR has not described the criteria that it will use to select recipients, but a range of ideas has been suggested. The newly-created President's Council for the Development of the Financial Markets, headed by First Deputy PM Igor Shuvalov, has announced that retail, construction, and banking are priorities. Prime Minister Putin has spoken of the need to support metallurgy, coal mining, and machine-, airplane-, and ship-building. Presidential economic advisor Arkadiy Dvorkovich has singled out pharmacies and small business as worthy. Other GOR spokespeople have identified retail, building, development, defense, car building, and the oil industry as key to the economy.

...Even Though There's No "Real" Crisis

¶4. (C) Meanwhile, coverage on state-controlled television has sought to persuade most Russians that their country is well-insulated from the global financial meltdown. Gyration stock markets and even a few bank collapses have so far not caused widespread panic. Russians with savings who are uneasy about the banking sector have merely transferred their savings to Sberbank, or as First Deputy PM Shuvalov told the Ambassador (reftel), they are trading in their ruble deposits for foreign exchange, effectively hoarding dollars. Meanwhile, Russians with limited means are stocking up on sugar, grains, and other staples.

¶5. (C) Job losses to date have been minimal and have not affected the "real" economy as far as most Russians are concerned, Transparency International's Elena Panfilova told us in a separate meeting. Panfilova said that there is not much empathy for the brokers, public relations specialists, and advertising and marketing professionals who find themselves unemployed. On the contrary, there is a sense that they are "speculators" (a Soviet insult) who must now actually earn a living. Panfilova noted that it was important to the Russian psyche that no doctors or teachers had lost jobs.

Analysts: Kremlin Unable to Control Dispensed Funds

¶6. (C) Panfilova and Yuriy Korgunyuk of INDEM both predicted that the credits and subsidies would all go to Kremlin insiders and be used for private purposes. Citing KIT Finance and Sobinbank (recipients of initial GOR bailouts) and the possible loan to Iceland, Panfilova told us that Transparency International was now outlining a "roadmap of the mechanisms of Kremlin corruption".

¶7. (C) Panfilova argued that even if Putin and Medvedev wanted to ensure that the monies the GOR was disbursing went to their intended destinations, there was simply no way that they could control all the layers. Korgunyuk observed that it would be difficult for Putin to control "his friends" as they have never before been checked in their self-serving behavior.

What's Good for RusAl is Good for Russia

¶8. (C) Yana Yakovleva of Business Solidarnost (a business rights organization) and owner of Sofeks (a chemical solvents distributor), however, saw greater merit in Kremlin decision making. In discussing the 30 October announcement that RusAl would receive \$4.5 billion to refinance a Western loan, she underscored that the Russian economy's health depended on large enterprises' stability. Not only do these firms employ large numbers, but SME's rely on them as buyers of their products and services. Although Yakovleva felt that the GOR had not adequately addressed the financing needs of SME's in the crisis (septel), she argued that GOR actions would keep the economy moving, albeit slowly.

Comment

¶9. (C) The GOR is running through its reserves at a fast clip. In a recent meeting with the Ambassador, First Deputy PM Shuvalov saw no problem with the government "burning through its reserves" for the sake of preserving macroeconomic stability - that is, the solvency of major banks and corporations. Even if the Kremlin has picked the "right" horses to back, buys Russia a sense of stability and fends off economic dislocation, though, there is no guarantee that state funds will penetrate the "real economy": SMEs, retail

outlets, second and third tier banks, etc. Moreover, some government insiders (Shuvalov and Kudrin, for example) have admitted to us that Russia should have used the opportunity presented by its oil windfall to establish rule of law and diversify its economy. Now that commodity prices are taking a nose dive, Russia may pay a steep price that its population may ultimately be ill-prepared or unwilling to cope with.
End Comment.

BEYRLE